

Report of the School Health Insurance Reform Team January 2004

Background

The cost of providing health care benefits to public employees has increased significantly. This is especially true in the area of school employee health care coverage. While a variety of measures have been adopted in many school districts to curb costs including more consumer driven products and different levels of coverage, school districts and their employees continue to raise concerns about health care costs. The unique funding of school districts, options available for schools in purchasing health care, and the nature of compensation and benefits for school employees, have created the need for a closer review of this critical issue.

During the 2002 Legislative Session, the issue of insurance costs for school districts was raised by interested parties. A bill was drafted to study school district health insurance which was referred to the House Commerce Committee. In 2003, Senator Kreimann requested a similar bill. Senate File 212 was referred to the Senate Education Committee and was assigned to Senators Boettger, Kreimann and McKinley. It was reported out of the Senate Education Committee as Senate File 386.

Senate File 386 was amended on the Senate floor to add area education association (AEA) representation to the study team. The bill passed the Senate and was referred to the House Commerce Committee. A House Amendment added language requiring a comparison of health insurance coverage between school employees, other public employees and private sector employees. The bill passed the house with the amendment. And the Senate concurred in the House Amendment. The bill was signed into law by Governor Vilsack.

Funding was requested to assist the Division in conducting the Study. The General Assembly appropriated \$15,000 to the Insurance Division for the study in a separate appropriation bill, House File 683. The funds were to be used for consultants, research, and other costs incurred by the Study Team

Senate File 386 created the School Health Insurance Reform Team Study to explore health insurance opportunities for school district employees in Iowa. The Team was charged to do the following: Conduct a study to review the availability of affordable health insurance coverage for school district employees, insurance rating practices, the establishment of continuity of coverage for school districts and their employees, and methods to improve the efficiency and fairness of the health insurance marketplace for school districts and their employees.

In addition, the study was to include a comparison of health insurance coverage that is offered to school district employees, to other public employees, and to employees in the private sector. The study would examine the feasibility of the following: 1. Establishing a premium rating system based on the statewide health status, claims experience, and

other demographic characteristics of school district employees; 2. Establishing basic or standard health benefit plans with benefit levels, cost-sharing levels, exclusions, and limitations available to all school districts and their employees; 3. Establishing uniform coverage plans with benefit coverages that may be added to the basic or standard plans, at the option of a school district; 4. Establishing restrictions on premium rates and rate increases; and 5. Establishing a school district health reinsurance program. (See Senate File 386, Appendices Tab 17.)

Senate File 386 set forth the required Study team members as follows: a representative of a school district with fewer than six hundred students, a representative of a school district with six hundred to nine hundred ninety-nine students, a representative of a school district with one thousand or more students, a representative of the Iowa Association of School Boards, a representative of a collective bargaining organization that represents school district employees, a representative of a health insurance carrier, a representative of a health insurance provider, a representative of an area education agency, and others, who, in the opinion of the Commissioner, have expertise that would assist the team in accomplishing its purpose.

The Commissioner of Insurance selected the members of the school health insurance reform team pursuant to the required membership stated in Senate File 386. The nineteen members included a representative of a school district with fewer than six hundred students, a representative of a school district with six hundred to nine hundred ninety-nine students and a representative of a school district with one thousand or more students. Other members included a representative of the Iowa Association of School Boards, a representative from each of four collective bargaining organizations that represent school district employees including the American Federation of State, County and Municipal Employees; the Iowa State Education Association; the Chauffeurs, Teamsters, and Helpers, Local Union 238; and the Communication Workers of America. (Originally, the Commissioner appointed only two collective bargaining representatives. However, upon recommendation of the Study Team, two additional collective bargaining representatives were added.)

The study team also included a representative from two health insurance carriers, representatives from two insurance brokerage firms, a representative from the Area Education Agencies, a representative from the community colleges, a representative from a 28E school health insurance entity, a representative from the School Administrators of Iowa, a representative of the Iowa Association of School Business Officials, a representative of the Federation of Iowa Insurers, and an attorney in private practice who represents clients in the negotiation of school district employee benefits. (Please see the Appendices for a complete list of Study Team Members, Tab 1.)

School Health Insurance Reform Team

The inaugural meeting of the Reform Team was held on July 8, 2003. Interested parties were invited to the meeting based upon the representation specified in Senate File 386. A general discussion was held concerning the scope of the Study and the possibility of

hiring consultants and experts. Assignments were made from the interested parties present. Additional representatives to the Team were suggested. Future meeting dates were set. (Agendas and minutes of every meeting are located in the Appendices, Tabs 3 & 4.)

Commissioner Vaughan appointed Dr. Glenn Pelecky, Chief Administrator of the Mississippi Bend Area Education Agency, and Chairman of the Team. Recognizing the importance of developing attainable public policy recommendations, the Team adopted rules and a deliberative process which encouraged participation, public discussion, and consensus. (These procedures are found in the Minutes of the August 5, 2003 meeting in the Appendices, Tab 4.) Iowa Insurance Division personnel were assigned to staff the meetings. Susan Voss, Deputy Commissioner, provided administrative assistance to the Team.

Proceedings and Deliberations

The Team embraced an ambitious timetable for the completion of their work (knowing that a Report to the Legislature was required on or before January 15, 2004.) They scheduled monthly meetings from August through December with an overall agenda. Meetings were held at the Iowa Insurance Division office in Des Moines, Iowa. Minutes and Agendas were sent to all Team members prior to each meeting. All meetings were open to the public. Observers who attended on a regular basis were notified of meetings and provided copies of documents shared with Team members. Each meeting opened with introductions of all persons present. (A list of regular attendees is found in the Appendices at Tab 2.)

A variety of presentations were made to the Team. Tom Leon from the Iowa Schools Employee Benefits Association (ISEBA) provided information in regard to the 28E health care coverage plan provided to member schools through his Association. (See Appendices, Tab 9.) Matt Shaffer, President of Wellmark Health Plan of Iowa provided an overview of health care issues and trends. (See Appendices, Tab 8.) David P. Lind of David P. Lind and Associates presented his annual Iowa Employer Benefit Study. (See Appendices, Tab 7.) Mollie Anderson, Director of the Iowa Department of Administrative Services, spoke on the State of Iowa Employees' Health Insurance Program. (See Appendices, Tab 10.) The purpose of the above presentations was to provide a review and comparison of the health insurance coverage offered to school district employees, other public employees and the private sector employees as required under Senate File 386.

The series of presentations were made to the Team to review the availability and affordability of health insurance coverage, insurance rating practices, continuity of coverage and methods to improve the efficiency and fairness of the health insurance marketplace as also required under Senate File 386. A presentation comparing insured versus self-funded plans was given by Team member Stacy Wanderschied. Ms. Wanderschied explained the types of coverage (insured and self-funded) that is available

in the market. She also explained how costs, group characteristics and benefit design are factored into the cost of group coverage. (See Appendices, Tab 11.)

Susan Voss of the Insurance Division provided Team members with information on the health insurance premium rating practices, health care coverage mandates under Iowa law, and continuation of benefits for individuals who leave their group health insurance plan. In addition, Ms. Voss provided a brief overview of other state activities in the area of school health insurance. (See Appendices, Tab 12.) A survey by the Iowa Association of School Boards concerning health insurance provided to school district employees was shared with the Team. (See Appendices, Tab 14.)

Larry Sigel, Team member and School Finance Director of the Iowa Association of School Boards, presented information concerning the financing of health care premiums. (See Appendices, Tab 15.) Mr. Sigel proposed allowing schools to issue bonds to cover the cost of health insurance rate increases. This could be done through the district management levy as set forth in Iowa Code section 298.4. Mr. Sigel stated that while the proposal would not reduce health care costs, it could be used as a cash-flow mechanism that provide some rate stabilization for districts that might experience wide rate fluctuations. The Team agreed that additional research and study was needed to determine the legality of the proposal. However, Team members felt that the mechanism was a tool to review and study.

The Iowa Insurance Division provided information in regard to the regulation of public self-funded entities and in particular, the use of Iowa Code Chapter 28E agreements that allow a group of schools to enter into a pooling mechanism for the delivery and cost of health care. Commissioner Vaughan and members of the Division staff explained the concerns of adequate funding of pooling arrangements. The Division noted that pooling arrangements can become problematic when rates increase at a rapid rate and healthier school groups decide to terminate their participation in the plan. This leaves the less healthy groups in the pool with large rate increases.

In addition, rates may not be adequate to pay claims. In order to insure that the pool has enough money to pay claims, either larger rate increases or assessments must be made. The Division does not have appropriate authority to review the pooling arrangements, their agreements or review the financial reporting or funding of the plan. The Division proposed a set of regulations to strengthen the oversight of public self-funded pooling arrangements including filing and registration guidelines, surplus requirements and financial reporting. (See Tab 16 of the Appendices for the proposed regulations that were approved by the Team.)

Two subcommittees were organized by the Team to address the concerns about establishing a statewide school district health care plan. One subcommittee was formed to draft a study based upon the charge in Senate File 386 to examine the feasibility of establishing a statewide premium rating system, a statewide basic or standard health benefit plan, optional uniform coverage above the basic or standard health benefit plan, restrictions on premium rates and rate increases and a school district health reinsurance

program. The subcommittee members were Janet Griffin, Tom Leon and Tom Hoffmann. The subcommittee reviewed the information and data presented and discussed at the Study Team meetings. The subcommittee outlined a set of working assumptions concerning health care delivery and costs, the unique age and gender factors of school district employees and the health care plans currently provided to school district employees.

The subcommittee provided the Study Team with a series of Options for Consideration in seeking ways to address the costs and availability of school district health care coverage. Each Option set forth a series of bullet points addressing implementation concerns. In addition, a set of Discussion Points was included raising issues that required further study and review prior to determining the effectiveness of the Option.

Four Options for Consideration were presented to the Team. They were 1. Require all school districts to join a single, statewide pool; 2. Create a voluntary, statewide pool into which school groups could elect to participate but would not be required to join; 3. Improve the current system of open-market delivery of health care to Iowa districts; and 4. Develop a statewide strategy to improve the health status of school employees and mitigate the long-term costs for districts. (For the complete Study Document, see Tab 5 of the Appendices.)

A second subcommittee was formed to review the issue of collective bargaining, Iowa Code Chapter 20 and its implication on school health insurance. The subcommittee members were Jim Crotty, Peter Paschler, Earlene Ledford, Gary Dunham, Larry Sigel, and Dr. Kent Mutchler. The collective bargaining subcommittee reviewed the effect on collective bargaining of a single statewide rating pool. They also reviewed the options for coverage under such a system and its effect on school districts of all sizes and their employees. The subcommittee also reviewed the overall time and cost to implement a statewide health care program and the economic impact of such a plan as a part of the overall compensation package for school district employees. The subcommittee recommended that more time and study along funding was needed to adequately address the issues for a planned alternative to the current system. (See Tab 6 of the Appendices for the Subcommittee's Report.)

Over the course of the five meetings, the Team reviewed the information presented, prioritized specific issues to be pursued, identified opportunities for further study and achieved Team consensus on a group of recommendations.

On December 2, 2003, the Study Team received a draft final written report. The Team sought further information, input and discussion on specific issues and recommendations of interest or contention. Following the discussion, the Study Team by consensus adopted the Final Report Findings and Recommendations.

Findings

The delivery of health care services to school district employees is provided through several different mechanisms. This includes fully-insured plans which are purchased through a licensed insurance entity, single-self funded plans where the school district pays for the coverage by setting aside dollars to pay for coverage (which may be administered through a third party,) or through a pooled purchasing arrangement with other school districts pursuant Iowa Code Chapter 28E. Each school district independently determines the types of benefits and levels of coverage offered to their employees. Collective bargaining pursuant to Iowa Code Chapter 20 provides the basis for determining the overall compensation package for school district employees which includes health care benefits.

Health expenditures are the largest component of the U.S. Economy (13.9% Gross Domestic Product in 2001) and are projected to rise over the next 20 years. Health care costs are paid through a variety of sources: Medicaid, Medicare, SCHIP and other governmental programs-45%; private insurance/self funded plans-34%; out of pocket-15%; and other-6%. 85% of the premium dollars for private health insurance is spent on claims/services costs. This includes 30% for physician services, 31% for hospital charges, 14% for drug costs and 10% for other services. By 2002, increases in employer health insurance premiums (12.7%) significantly outpaced increases in workers' earnings (5%) and overall inflation (2 %.) (See Summary of Health Care Issues and Trends-presented by Wellmark, Appendices, Tab 8.)

School district health care coverage and its costs are higher as compared to private industry. There is a variation on the number of medical plans offered by school districts. Based upon the David P. Lind Survey, 48.8% of school districts offer only one medical plan. 49.1% offer two or more medical plans. The state of Iowa provides 11 different health care plans to its approximately 70,000 members. This compares to 58.3% of private industry employers who offer only one medical plan with 38% offering two or more medical plans. Deductibles, out-of-pocket maximums, copays, premiums, and employee contributions vary between private industry and school districts.

In addition, some actuarial studies find that even when benefits are equalized, education groups as an industry on average have 10% or higher claims costs than other sectors. The underlying reasons for this differential are unknown at this time. This is an area where additional study might provide some useful insights. Premiums are generally higher for school districts with benefits more generous than private industry. However, as compared to state employee benefits, they are less generous. It is important to remember that this difference does not take into account other factors concerning overall worker compensation, I.E., salary, retirement, etc.

A recent survey of 332 school districts found that 27.1% of the districts are self-funded while 72.9% are fully insured. About one-third of the school districts have a health insurance program independent from any other district. One-third of the districts participate in the Iowa Schools Employee Benefits Association (ISEBA) plan with the

other 1/3 participating in some other form of consortium of districts. Approximately 85% of the districts stated that they had made a change to their health insurance coverage levels or program designs in the past 3 years. (See the Iowa Association of School Business Officials Survey in the Appendices, Tab 14.)

Currently, about one-third of the districts require 100% participation in the district's health insurance program pursuant collective bargaining agreement, one-third allow the employees to opt-out of the health insurance program with some salary or TSA in lieu of insurance and one-third can opt out but receive no additional pay. In many circumstances, healthier or younger school district employees decide to seek health care through another source that may be less costly. Or, the employee may wish to receive additional compensation provided them if the employee does not enroll in the school district health care plan.

Such a system may cause adverse selection whereby only the less healthy risks are left in the pool of enrollees causing rates to increase at a faster level. The issue of participation and the ability to opt-out was discussed at length by the Team and the possible financial impact it may have on the health care plan for the district.

The ratio of male to female employees for school districts is markedly different from the State of Iowa employee enrollment and the private sector. 72% of school district employees are female, 28% are male. This compares to roughly 50%/50% male/female for State of Iowa employees. In the overall labor force in Iowa, 47.4% are female and 52.6% are male. The average age of the school district employee is 43 compared to 44.5 for the State of Iowa employee. The average age of the overall labor force in Iowa is unavailable.

Several other states have implemented or are studying the implementation of state-wide school health insurance programs. (See the State Chart in the Appendices, Tab 13.) Some states provide an optional state-wide program such as Nebraska and New Mexico while Texas provides for mandatory participation for their small school districts with optional participation by larger districts. The state of Minnesota is in the middle of a two-year \$1.5 million study to determine the feasibility of a state-wide school health insurance program. That report is due the end of 2004.

It is difficult to make comparisons with other state programs in light of the variance in costs, rates of coverage, benefits, and state laws, mandates and other educational requirements. Uniqueness of populations, health care delivery mechanisms, and other non-direct cost factors make it difficult to adequately compare the structures of other states with Iowa especially given the limited budget and time frame of the Study.

Health insurance benefits are part of an overall compensation benefit package for school district employees. Collective bargaining provides the mechanism for school district employees to negotiate wages and benefits with several different collective bargaining units or unions. Overall compensation should be taken into consideration when reviewing and comparing health care coverage. In many instances, bargaining units

negotiate lower wage increases in exchange for health care benefits where the employer bears a significant portion of the costs.

Should a legislatively enacted state-wide school health insurance plan be implemented, the scope of collectively bargaining would be limited by state law. Iowa Code section 20.28 provides that where collective bargaining conflicts with other code sections, the other code sections prevail. Therefore, changes to Iowa Code Chapter 20 would not seem to be necessary to address a proposed state-wide health insurance plan. (See the Subcommittee Report on Collective Bargaining in the Appendices, Tab 6.)

A Feasibility Study of a proposed state-wide school health insurance program revealed a set of options and discussion points for the Study Team to review and consider. Those four options are: 1. Require all school districts to join a single, statewide pool; 2. Create a voluntary, statewide pool into which school groups could elect to participate but would not be required to join; 3. Improve the current system of open-market delivery of health care to Iowa districts; and 4. Develop a statewide strategy to improve the health status of school employees and mitigate the long-term costs for districts. (See the School Health Insurance Reform Study in the Appendices for the complete report on the Options and Discussion Points, Tab 5.)

The Team found that there is no one “silver bullet” to alleviate the concerns of school districts and their employees in regard to affordability and availability of health care coverage. As with the other population groups in Iowa including state employees and the private sector, health care costs continue to rise due to a variety of issues. As noted by several presenters throughout the Study, a number of factors including increased inpatient and outpatient services, higher drug costs, litigation and risk management, mandates and regulation, rising provider expenses, increased consumer demand (often caused by extensive advertising) and general inflation all contribute to the increased cost of health care. In addition, the Team found that a general lack of understanding of benefits, inappropriate health care choices, limited focus on preventative services and overall difficulty of health care subject matter led to consumers accessing health care in ways that might cause higher claims and costs. Focusing on one factor may not necessarily reduce costs and may in fact provide unintended negative consequences.

The Team found no evidence that a statewide school employee health care system would reduce costs. However, there is evidence to suggest that a mandatory state wide pool would level off the ever fluctuating rates increases experienced by some school districts by shifting the costs throughout the entire school district employee population. Simply pooling larger numbers of individuals does not in and of itself significantly reduce costs. What it could do is moderate annual fluctuations in rates and reduce some of the volatility many districts are presently experiencing.

The Discussion points raised in the Options for Consideration document suggest the need for additional in-depth study of the various options. The Study Team did not believe they had adequate time, resources or expertise to fully study and review each option set forth for consideration. Should the legislature find it appropriate to conduct additional study

and research relative to any of the options presented, the Study Team felt that individuals with the proper expertise would need additional time and resources to complete a thorough study of the options.

Recommendations

The Study Team agreed by consensus that the issue of studying and possibly implementing broad change to the current school health insurance structure is complex and far-reaching. Given the issues presented above, the many facets of health care services, delivery and costs, and the time limits presented to the Team, the following three recommendations are presented.

1. **Increased Consumer Education.** The Team believes that consumer education is fundamental to reducing costs of health care and is our best hope for truly reducing the cost of health insurance long term. Better educated consumers as to actual costs of services, the impact of utilization on premium rates, the types of coverage appropriate for their needs, and other forms of consumer-directed education are essential to the reduction of health care costs. Therefore the Team recommends that consumer education be a part of any future program to reduce health care costs and that the legislature should consider funding programs that would accomplish this aim.
2. **Increased Funding to School Districts.** The health care cost issue for school districts is symptomatic of larger budget pressures due to the low percentage of allowable growth provided to the districts. The recent use of general fund appropriations to pay for health insurance and health care costs is merely the siphoning of funds from one school district need to another. This is not unique to public bodies, but is also found in the private sector as well. However, in order to address the issue of rising of health care costs, the Team feels that increased funding to school districts is necessary.
3. **Additional Study of school health insurance.** The complexity of health care coverage and its delivery cannot be studied in a short span of time. While the Team believes that a great deal of information was gathered, reviewed, and discussed, the possibility of changes to the current delivery system, even minor ones, would take additional time and resources not available to this Team. The Team is satisfied that given the charge stated in Senate File 386, they fulfilled their duties. Therefore, the Team recommends that should the legislature desire to conduct further review of this subject matter, more resources, time, personnel and staff be provided.